

USAID/Nicaragua

Annual Report

FY 2005

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Nicaragua

Performance:

Over the last several years, Nicaragua has made strides in establishing and strengthening democratic institutions, improving the education and health status of the population, and, in the last two to three years, turning around its sluggish economy. Nicaragua's improved situation is both remarkable and fragile. Its advances are remarkable in that Nicaragua has been plagued with formidable setbacks in recent years, including devastating natural disasters and political corruption at the highest levels in past administrations. The fact that measurable progress has occurred signals the dedication of many Nicaraguans to improving the living standards of the country.

Nevertheless, there are serious problems that continue to hamper the country's economic growth and social development. Nicaragua remains one of the poorest countries in the Americas and continues to require extensive donor investment. The per capita Gross Domestic Product (GDP) and income levels are lower than those of the 1960s, and real economic growth, while recently showing a turnaround, declined from 7.4% in 1999 to 1% in 2002, and is only now growing back to 2.3% in 2003, and about 4% in 2004. Nicaragua's high external debt (\$6.5 billion before recent debt forgiveness) and internal debt of \$1.5 billion have inhibited future growth. Around three-quarters of the population live on less than \$2 a day; unemployment and underemployment are close to 50%; and income inequality is very pronounced. Access to capital decreased sharply with the collapse of the national banking sector in 2001, and foreign direct investment has been declining up until recently.

Although significant improvements in health and education were made over the past decade, problems remain. On the average, Nicaraguans complete fewer than five years of schooling, and nearly 500,000 children, aged three to 12, remain outside the formal education system. Population growth is estimated at 2.7%, one of the highest in the region. There are serious inequities in health care access for the poorest 40% of the population, and chronic malnutrition levels remain high for Nicaraguans in the lowest income groups.

By far, the most serious obstacle to progress in Nicaragua, affecting the economy and the welfare of the people, is the extremely politicized and weak democratic system. While the country has seen three technically satisfactory presidential elections since 1990, institutions, particularly the National Assembly and the courts, continue to be manipulated by political bosses for personal gain and power. The justice system, in general, is inefficient and politicized, and dramatic reforms are needed to establish the legal and institutional framework that promotes the transparency and rule of law necessary to protect citizen's rights and to encourage business and investor confidence. The situation reached a crisis level in November 2003, and the U.S. government suspended direct assistance to the Nicaraguan justice system, based on a series of events that had placed the efficacy of that assistance in question. Work continued with civil society groups and public oversight activities. In May 2004, USAID restarted assistance in many activities related to justice but maintained a freeze on most activities with the courts and activities with the National Assembly that are not directly relevant to U.S. interests.

Despite these problems and setbacks in the justice system, Nicaragua has shown signs of progress. In 2004, the economy is showing signs of a turnaround as GDP growth rate is expected to reach 4% at year's end. Nicaragua also qualified and met the conditions to benefit from the Heavily Indebted Poor Country (HIPC) program. As a result, Nicaragua has seen a significant amount of its external debt forgiven, which will give the country an additional \$200 million a year for critical economic growth and poverty-reduction programs. The government has made health and education priorities and has allocated significant percentages of the national budget for social investment. Malnutrition rates, infant and maternal mortality rates, fertility rates, and school desertion rates, while still high, have been declining

over the last several years.

U.S. Interests and Goals: Despite considerable political challenges, Nicaragua is slowly moving along the right path, consistent with the development precepts outlined in President Bush's Millennium Challenge Account (MCA) of expanding opportunities for ruling justly, economic freedom and investing in people. Nicaragua is one of 16 countries eligible for MCA assistance and has submitted a proposal to the Millennium Challenge Corporation for consideration. The current administration has imposed discipline and demonstrated that fiscal and monetary stability can be achieved. Inflation has been kept at bay, and the internal debt is being addressed. The current government's fight against corruption and advances in health and education, if sustained, can help pave the way for achieving long-term development goals. But recent political manipulations show how fragile these gains are.

Nicaragua has the potential to be a stabilizing factor in the region. The current government of Nicaragua has been an ally of the U.S., supporting U.S. foreign policy, including the fight against terrorism. Increased stability in Nicaragua's democratic institutions and growth in its impoverished economy are at the heart of U.S. interests to maintain Nicaragua among those nations aspiring to contribute to a more secure, democratic and prosperous world. U.S. national security can be affected by Nicaragua's poorly controlled borders and weak governmental institutions that cannot adequately defend against international terrorism and transit of illegal aliens, drugs and arms.

Promoting economic growth through integration in regional and global markets is a top U.S. foreign policy priority, since Nicaragua's poverty and high unemployment can threaten the long-term sustainability of democracy and rule of law. At the same time, it has become evident that without good governance in all institutions and a transparent judicial system, investor confidence will be held back, and the country cannot attract the investment it needs to reduce poverty and expand the economy. USAID's assistance program for Nicaragua focuses on key U.S. foreign policy objectives: democracy, economic prosperity and security, and social and environmental issues.

In the area of promoting economic freedom, USAID activities help Nicaragua to become more competitive to take advantage of the opportunities of free trade agreements, particularly the Central America Free Trade Agreement (CAFTA) with the U.S. USAID works with the government and the private sector to promote policies that encourage investment, rural diversification and access to new markets. USAID is helping to increase rural incomes by promoting diversification, competitive production and market access. In health and education, USAID advances the decentralization of social services and the training of health workers and teachers to increase the population's access to quality health and education. Programs concentrate on improving health and nutrition, and education with the participation of local government, parents, and community residents. USAID's activities in strengthening democracy, provide support for public mobilization and oversight for the reforms needed for a transparent judicial system, government accountability, and to guarantee citizens' rights. The program also provides assistance to those institutions that are leading the fight against corruption and that are providing legal services to disadvantaged groups.

Donor Relations: The Government of Nicaragua continues to strengthen donor coordination through sector coordination roundtables. There are five roundtables: health, education, infrastructure, governance, and production and competitiveness. USAID leads the production and competitiveness roundtable. There is also a global roundtable that oversees and coordinates the work of the sector roundtables and addresses macroeconomic and crosscutting issues. This donor coordination system provides a forum to prioritize development needs jointly and harmonize donor activities. Nicaragua is also a G-8 anticorruption pilot country. Overall donor assistance in grants and loans totaled \$5.7 billion during 1994-2004, averaging about \$500 million a year. The United States and Sweden were the principal bilateral sources of assistance in 2003, followed by Denmark, Germany, Japan, Spain, the Netherlands and Switzerland. The activities of these countries complement USAID's programs in democracy, economic growth, education and health. The main multilateral assistance came from the European Union, the World Food Program, the World Bank and the Inter-American Development Bank. Nicaragua is also actively engaged in harmonization at a global level by participating as one of the few pilot countries for a Joint Country Learning Assessment under the auspices of the Organization for Economic

Cooperation and Development. The European Union's 2000-06 assistance program mainly supports rural development and agricultural policy, and about 20% for education. The Inter-American Development Bank projects a lending program averaging \$100 million a year from 2002-05 that includes assistance in the areas of competitiveness, tax reform, infrastructure and social sector adjustment. The World Bank started a Country Assistance Strategy in 2003 that will support the implementation of Nicaragua's Poverty Reduction Strategy by providing \$40 million in loans per year over three years. As an MCA eligible country, if Nicaragua's proposal is selected and a compact with the U.S. government is signed, the country is poised to receive additional U.S. Government funding.

Challenges: Nicaragua has achieved important gains in recent years and qualified to compete for MCA funding. However, the country still faces formidable challenges. Being selected as an MCA country is indicative of itself that the country is extremely poor-currently the second poorest in Latin America. The high population growth rate is slowing economic growth and the population pyramid shows that Nicaragua will need to create over 100,000 new jobs a year to keep up with the population growth rate. By far the greatest drag on the country's ability to reduce poverty and spur economic growth and social welfare is the control of the judicial and legislative branches by political party bosses, interested only in their own power and enrichment. Nicaragua's greatest challenge is to develop independent, transparent courts and government institutions that will create the environment of stability and trust that is needed for economic investment and growth.

Key Achievements: FY 2004 marks the culmination of a USAID development program that began in 1998 and the initiation of activities of USAID Nicaragua's Country Program under the new Regional Strategy for Central American and Mexico. Significant gains were made under the old program towards USAID's three main goals of judicial reform, economic expansion and better health and education. This effectiveness is due in large measure to the respect and confidence that GON and USAID officials share. The challenge in the coming years will be to build on the achievements of the old program and to use assistance for the greatest national impact to strengthen democracy, expand economic growth that will reduce poverty and raise living standards, and to improve the health and education of the population. The following discussion describes achievements for both the previous and new strategic objectives.

1. Good governance: USAID activities in this area have had important results in establishing a legal framework for Nicaragua that is the foundation for a functioning democracy and economic development. All of USAID's work in improving the judicial sector, strengthening government institutions, civil society and freedom of information contributed to promoting and supporting anti-corruption reforms. USAID coordinates with other donors such as the Swedish Development Agency, the Spanish Aid Agency and the OAS to achieve its goals under this program.

As a result of USAID activities, Nicaragua enacted and is implementing a new Criminal Procedures Code, has drafted and passed (general approval) a Criminal Code, has introduced an Arbitration and Mediation Law and passed a Judicial Career Law. With the successful enactment of the Criminal Procedures Code-recognized as one of the best in Latin America--USAID helped Nicaragua replace an antiquated code that severely infringed on the rights of citizens to a fair trial, with a modern code that promotes transparency in the courts and access to justice. One of the most important achievements in this area was the passing of a Judicial Career Law. While the law has weaknesses, it is an important step in developing a non-partisan, transparent judicial branch of government. The Law on Arbitration, Mediation and Conciliation will help improve the business climate and the country's competitiveness.

USAID's activities with civil society and journalists were important contributors to achieving the goals under this program, particularly after the U.S. government suspended assistance to the courts. Public oversight groups have been mobilized to propose legal reforms, to support important legislation and to inform the public on new laws and how to access government legal services. USAID provided training to the media that has resulted in greater coverage of judicial reform initiatives and the fight against corruption. In FY 2004, USAID provided assistance to an anti-trafficking in persons coalition that is waging a publicity campaign to prevent human trafficking and has already dealt with the first repatriation case of an alleged Nicaraguan trafficking victim. An anti-trafficking-in-persons office was inaugurated by the GON in October 2004. USAID strengthened local peace commissions and human rights networks

through activities under a grant to the OAS to support community leaders and municipal government.

2. Increased trade and economic growth: In FY 2004, USAID has made great advances towards its goal of increased trade and investment through market-opening international agreements and further integration of developing countries into the trading system.

The program achieved its expected results of raising farmers' incomes through increased trade from rural economy diversification and market-led activities. At the close of this strategy period, more than 131,000 farm households received USAID support to diversify agricultural production, increase yields and access new local, regional and international markets. USAID's loan guarantee program, support for public debt policy regulations, rural road rehabilitation and agricultural diversification programs all contributed to thousands of Nicaraguan farmers increasing incomes and securing new markets. In the past year alone, sales of fruits and vegetables in local, regional and international markets increased by \$8 million, dairy products by \$12 million and meat products by \$600,000. Through USAID's Faith-based Coffee Initiative, nearly 1,500 small-scale coffee growers received assistance to produce high quality specialty or organic coffee and find markets for these coffees.

One of the most important achievements of the economic growth program was the successful negotiation of the U.S.-Central America Free Trade Agreement (CAFTA). As a result of USAID support, the majority of Nicaraguans strongly believe that CAFTA will bring benefits to the country. To help Nicaragua take advantage of CAFTA and other free trade agreements, USAID provided assistance for improving and unifying customs regulations and phyto-sanitary standards.

Improved management of natural resources and biodiversity conservation are components of all USAID activities. USAID helped bring thousands of hectares of protected areas under sustainable management and helped draft an important new Forestry Law.

3. Healthier, Better Educated People: Some of USAID's greatest achievements have been in health and education. USAID's assistance and coordination with the Ministry of Health, community volunteers and nongovernmental organizations (NGOs) have reduced malnutrition, improved health practices at the household level and cut the spread of disease. Currently, USAID, along with the Ministry of Health, reach approximately 15% of Nicaragua's 10,000 rural communities with child survival and nutrition interventions. Chronic malnutrition was reduced over the life of the program by 5% and fell to an all time low of 20%, and infant mortality dropped from 40 per 1,000 to 31 per 1,000.

The most significant accomplishment of the USAID education program has been the establishment of quality as the heart of education ministry policies. Under USAID's Basic Education program during the past five years, schools under the program have achieved 20% higher completion rates compared to other schools and higher academic achievement through higher test scores. Parent participation in the program was nearly 100%. USAID also supported a successful Global Development Alliance in education with the American Nicaraguan Chamber of Commerce, the American Nicaraguan Foundation and the USAID-supported Academy for Educational Development. More than 50 private businesses participate in the alliance, providing materials and assistance to schools.

Gender: Attention to gender issues has noticeably increased in USAID/Nicaragua's programs. A gender analysis was completed in April 2004. The results of the analysis include specific recommendations for each program on how to incorporate gender considerations in its activities. These are being applied under the old strategy and are being expanded in the new country program for Nicaragua. In the area of judicial reform, special attention is being given to laws that deal with crimes against women and children. Women legal organizations have been incorporated into activities. In the economic growth program, activities include and promote the active participation of women entrepreneurs. In health and education, men, as well as women, are targeted to receive training and education in reproductive and maternal and child health issues. In Nicaragua, in education, girls outperform and stay in school longer than boys. USAID is addressing this issue in its activities.

Trade Capacity Building: USAID's activities led to the successful negotiation and signing of the U.S.-

Central America Free Trade Agreement. Activities are now centered on promoting the ratification of the treaty by the country's National Assembly and in helping the country prepare to take advantage of the opportunities of free trade with productivity standards and increased competitiveness, and laws and policies that promote free trade and investment. These activities are at the center of the Mission's new strategic plan.

Results Framework

524-001 More Political Participation, Transparency and Compromise

SO Level Indicator(s):

- Civil liberties score
- Political rights score
- 1 Consolidating the rule of law
- 2 Efficient and transparent elections
- 3 Strengthened civil society
- 4 More accountable and responsive government

524-002 Sustainable Growth in Small Producer Employment and Income

SO Level Indicator(s):

- Agricultural GDP growth rate
- 1 Small farmers produce more and diverse crops
- 2 Small businesses and microenterprises expanding
- 3 Natural resources being used more rationally

524-003 Better Educated, Healthier, Smaller Families

SO Level Indicator(s):

- Fifth grade completion rates in model schools
- Infant mortality rate
- Total fertility rate
- 1 Integrated child survival services and practices
- 2 Comprehensive reproductive health services
- 3 Better nourished women and children
- 4 More students learning more and completing primary school

524-021 Ruling Justly: More Responsive, Transparent Governance

SO Level Indicator(s):

- Changes in user assessments/evaluations of the responsiveness and quality of service of key government agencies
- Trial court performance
- 1 Strengthened rule of law
- 2 Greater transparency and accountability of government

524-022 Economic Freedom: Open, Diversified, Expanding Economies

SO Level Indicator(s):

- Changes in composition and contribution of various, higher value-added sectors to the economy
- Increase in trade as percentage of GDP
- 1 Laws, policies and regulations that promote trade and investment
- 2 More competitive, market oriented private enterprises

524-023 Investing in People: Healthier, Better-Educated People

SO Level Indicator(s):

- Immunization rates: DPT
- Net enrollment rates for grades 7-9
- Primary education completion rates
- Total fertility rates
- 1 Increased and improved social sector investments and transparency
- 2 Increased and improved basic education opportunities
- 3 Improved integrated management of child and reproductive health